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TAB C

Current Developments in Eastern and
Western Europe

Economic Developments in the USSR and Eastern Europe

In 1966 and 1967 economic performance in both the USSR and Eastern Europe has been good. Economic growth has been high and above that of Western Europe. While the pace of industrial output has quickened, the recent good showing rests heavily on two exceptionally productive agricultural years.

In the USSR, the growth of the economy has benefited the consumer and the military. The production of weapons appears to be increasing markedly, at the expense of investment in agriculture and industry. This priority shift, however, may be only temporary and there apparently has not been a firm decision on long range allocation priorities.

Although the people's appetite for Western type consumer goods is growing, the USSR will not enter the "automobile age" for many years. In 1970 the USSR will have half as many automobiles in relation to population as Greece does at present. But most Eastern European countries are better off. East Germany and Czechoslovakia are far ahead of the USSR, although they are two decades behind Western Europe. As automobile ownership spreads in these countries popular demand for more automobiles is likely to grow even stronger. In turn, rising living standards and expectations are bound to complicate the task of governing for the Communist regimes.

Economic Developments in Western Europe

The growth of the Western European economies this year is the slowest in nearly a decade. West Germany has been in an economic recession and has imported less from its trade partners some of which (like the Netherlands and Belgium) have been hurt considerably. The restrictive measures undertaken to support the pound sterling during the past two years have kept production from rising in the UK. There has been a slight slowdown in the growth of the French economy.

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The UK's devaluation was the outcome of long standing weakness in the competitive position of the British economy. For years every economic expansion in Britain was quickly halted by a balance of payments crisis and in the past two years there was a balance of payments deficit even though the economy did not expand. The Middle East crisis made matters worse but was not the primary factor leading to the devaluation.

The Current Italian Scene

The Italian political situation has been generally stable since the Nenni Socialists entered the government coalition in December 1963. Premier Moro's cabinet, which is based on a coalition of Christian Democratic, Unified Socialist, and small left-center Republican parties, has been in power since February 1966, and is expected to last until the national parliamentary election tentatively scheduled for 26 May 1968. The Italian Communist Party (PCI) retains the vote of about one-quarter of the Italian electorate, but is politically isolated. The principal weakness of the government is the vulnerability of the Socialists to the criticism that, as members of a coalition, they have not promoted enough progress in social reform.

The Italian economy is about the only one in Europe which has been booming recently. Industrial production is expected to increase about 10% in 1967, and unemployment has dropped to the lowest level in years. In spite of the boom, prices and costs have risen more slowly in Italy than in other industrial countries and there is a surplus in the balance of payments.

Possible Questions for Mr. Agnelli

Sterling devaluation -- Is 14% enough to give much of a boost to British exports? What will be its effects on British trade with Italy and other Common Market countries?